Atlas Financial Holdings Fourth Quarter 2013 and Year-End Financial Results

Speakers: Scott Wollney, Paul Romano

Operator: Greetings and welcome to the Atlas Financial 2013 Q4 and Year-End Financial Results conference call.

At this time, all participants are in a listen-only mode.

A question and answer session will follow the formal presentation.

If anyone should require operator assistance during the conference, please press star-zero on your telephone keypad.

As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Scott Wollney, Chief Executive Officer for Atlas Financial.

Thank you. You may begin.

Mr. Scott Wollney: Thank you very much, Bob, and good morning everyone.

With me today is Paul Romano, our Vice President and CFO.

On this morning's call, I'll provide a brief update on our business operations in the market. Paul will review our fourth quarter results in detail. And then, I'll return for closing remarks. We will then open it up for Q&A.

Before I begin, I'll turn it over to Paul.

Mr. Paul Romano: Thank you, Scott, and good morning everyone.

Yesterday, after market close, Atlas issued its 2013 fourth quarter and year-end financial results.

Copies of this press release are available at the "Investor Relations" section at the company's website at www.atlas-fin.com.

We will be utilizing a slideshow presentation in conjunction with this call. This presentation is available on our website's "Investor Relations" section, and then under the "Earnings Release Info" selection. We welcome each of you to review this presentation and follow along.

On this call, we may make forward-looking statements regarding the company, its subsidiaries, and businesses. Such statements are based on the current expectations of the management of each entity. The words, "anticipate", "expect", "believe", "may", "should", "estimate", "project", "outlook", "forecast", or similar words, are used to identify such forward-looking information.

The forward-looking events and circumstances discussed on this call may not occur and could differ materially as a result of known and unknown risk factors and uncertainties affecting the companies, including risks regarding the insurance industry, economic factors, and the equity markets, generally, and the risk factors discussed in the "Risk Factors" section of its Form 10K for the year ended December 31st, 2013, which was filed after market close yesterday.

No forward-looking statement can be guaranteed. Except as required by applicable securities laws, forward-looking statements speak only as of the date on which they are made. And the company and its subsidiaries undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

When discussing our business operations, we may use certain terms of art, which are not defined under U.S. GAAP. In the event of any unintentional difference between the presentation materials and our GAAP results, investors should rely on the financial information in our public filings.

All amounts discussed on this call are in U.S. dollars unless otherwise indicated.

With that, I'd now like to turn the call back over to Scott.

Mr. Scott Wollney: Thanks, Paul.

We were pleased to report strong financial results for our quarter and end-year largely driven by solid underwriting gains and continued growth in our core light commercial vehicle business, specifically insurance for taxis, limousines, and para-transit operators.

A number of important milestones were achieved during the year. We completed our U.S. IPO, culminating in the company becoming listed on NASDAQ, closed the acquisition of Gateway Insurance Company last January, growing our geographic presence substantially, streamlined our capital structure through the redemption and cancellation of 18 million preferred shares at a discount, and all outstanding warrants were exercised before their expiration on December 31st, 2013.

Key elements of our financial results, as highlighted on Slide 3, include increased underwriting gains, lower combined ratio, and continued growth in gross premiums written and net premiums earned.

Work over the past few years following the creation of Atlas has positioned us well with a clean balance sheet and an infrastructure that can continue to sustain our current growth trajectory.

Slides 4 and 5 show the current geographic breakdown of the states in which we write.

As you can see on Slide 5, we wrote $93 million in gross premiums during 2013, an increase of 69 percent as compared to the prior year. Our growth rate in the fourth quarter was substantially higher, as Paul will discuss. We were pleased that our growth is the result of increased premium writings across a widely dispersed geographic base.

Excluding our excess taxi program in New York, we have no state representing more than 12.1 percent of our gross premium written. Further, we feel that there is still considerable room for additional vertical growth in all of the states in which we are actively distributing our products.

Atlas has approximately 7 percent market share nationwide and less than 5 percent market share in most states.

Our agents wrote nearly $150 million in commercial auto business only a few years ago through our three subsidiaries: American Country, American Service, and Gateway. This premium level was achieved predominantly in a handful of states. Now, we're in 40, plus Washington D.C.

However, we're not only capturing back business that was written through these subsidiaries a few years ago, we're also winning new business from competitors based on our strong value proposition.

While we continue to increase our premiums written and expand vertically in our current geographies, our commitment remains to enhance underwriting profit and maximize return on equity.

Slide 6 illustrates the improvement in each of our operating ratios, reporting a combined ratio of 94.4 percent for the year and 91.4 percent for the quarter. This marks the sixth consecutive quarter of positive combined ratio trending.

On the next slide, we highlight our underwriting profit improvement. At the same time, as quarter-over-quarter improvements in our combined operating ratio increase margin, greater operating leverage increases return on equity at an accelerating rate.

Our return on average common equity was 10.9 percent in 2013 as compared to 6.1 percent in 2012. On a pro forma basis, dividing annualized Q4 2013 income against average common equity for the quarter, ROE would be 15 percent.

As we've noticed on past calls, our agent compensation and incentive plans are linked directly to ROE and our ability to achieve an underwriting profit.

We do not distribute through wholesalers, managing general agents, or other intermediaries who are disconnected from the point-of-sale, which is critical to effective underwriting, as well as understanding exposures and loss reserving.

Our customer can crash a lot, but typically with relatively low severity. As a result of our operating insurance subsidiaries history and constant communication within our network, Atlas has a significant amount of data from which to draw, and feel that we can effectively price our exposure with a high degree of confidence.

Our agents know their customers because commercial auto insurance is all they do. They understand our value proposition, know how to sell it, and are as committed to our specialty niche as we are.

We don't think this is something that a larger player can come in and easily replicate, at least not sustainably. In fact, a number of generalist insurers exited the niche in the past year or so creating incremental opportunity on which we are now capitalizing.

Atlas's goal is to continue to strengthen the relationship with our agents and policyholders. Our executive team has frequent interactions with our cornerstone agents, which ensures that we have an open and effective line of communication. This differentiates us from competitors, creates an avenue for us to share information with our distribution channel in an extremely timely way, and keeps us plugged in to market changes and opportunities. Overall, we feel this approach best facilitates our service model, garners greater commitment across market cycles, and supports effective pricing long-term.

On Slides 8 and 9, we note the trends we are seeing in new business and retention rates. We've been pleased with the upward trend of new business submissions, and of equal importance, is our continuing to maintain a steady 85 percent renewal rate. Right now, we're pricing to a 60 percent loss ratio or better. And we use these and other operating metrics to evaluate our pricing power.

While industry-wide commercial automobile rate increases appear to have moderated in Q4 2013, as seen on Slide 10, the environment in our niche continued to support mid to high single-digit rate increases.

We are regularly renewing business at rate levels that support our underwriting profit margin and are binding new business with incremental rate.

Our agents are faring well on the current marketplace. And requests from potential new agents continue to come at record levels. As always, we remain very selective about the agents with whom we do business.

As you can see on Slide 11, we still appear to be at early stages of market firming and have not yet entered a truly hard market.

Rates have been going up at increasing margin levels for the past two years. And a slower less volatile market cycle is certainly something that would benefit Atlas in the short and long-term.

In our particular niche markets of taxis, limos, and para-transit, we're beginning to see in recent quarters the benefits of larger competitors exiting the market over the last 12 to 18 months. In many cases, these companies were distributing products through managing general agents or wholesalers, and were often the most price aggressive of our competition. In addition, competitors in our market that may have struggles in other lines of business are now distracted from our specialty niche or are raising rates across the board.

Atlas remains wholly committed to the specialty commercial auto markets we serve without the distractions facing many of the companies with whom we've been competing in recent years.

We don't see any significant factors moderating our pricing strategy for 2014, and are optimistic that we'll be able to further increase our margin targets as the year goes on.

It's also worth noting that Atlas is not materially exposed to catastrophic risk which eliminates potentially volatility in that regard.

With that, I'll turn the call over to Paul for a review for our financial results.

Mr. Paul Romano: Thanks, Scott.

I'll briefly go through the quarterly highlights, but encourage each of you to review the press release and filings for additional detail.

As shown on Slide 13 of the presentation, Atlas's gross premium written increased 106.2 percent to $22.1 million in the fourth quarter of 2013, 124 percent increase from our core commercial auto lines.

Of the $11.4 million improvement in total gross premium written, approximately $2.5 million is attributable to the Gateway acquisition that occurred in 2013, January.

The remaining improvement is due to Atlas's vertical expansion of core lines of business across our current distribution footprint.

Our net premium written increased 122.8 percent to $20.4 million during the fourth quarter of 2013, which was all related to Atlas's specialty commercial auto lines. Our net premiums earn ratably over the term of our policies, which are generally 12 months in length. For the three month period ended December 31st, 2013, net premiums earned increased 72.2 percent over the prior quarter to $20.5 million.

Let me take a moment now to summarize our operating ratios for the quarter.

For the fourth quarter 2013, Atlas's loss ratio was 63.3 percent compared to 67.7 percent in the prior year quarter, and remain consistent with the loss ratio reported in the third quarter of 2013. For the full year 2013, our loss ratio was 63.9 percent.

As Scott mentioned earlier, we are pricing our business to a 60 percent loss ratio, and believe our expertise in claims handling provides for real economic value with respect to getting our customer's vehicles back into service. We will continue to maintain steady pricing discipline in this current market cycle.

Acquisition costs were 14.7 percent of net premiums earned in the fourth quarter 2013 as compared to 15.9 percent in the prior year period. For the full year 2013, our acquisition costs were 14.5 percent. As we've noted in the past, this percentage represents a good annualized run rate level.

The ratio for other underwriting expense, or OUE, was 13.4 percent for the fourth quarter 2013, an improvement over the 14.6 reported in the third quarter of 2013, as well as an improvement over the 13.8 percent reported in the same quarter last year.

For the full year 2013, our OUE ratio was 16 percent compared to 17.1 percent for the full year 2012. As previously communicated, we anticipate the OUE ratio will continue trending towards the 10 to 12 percent range as we've now reached minimum efficient scale. We believe the ratio will remain towards the higher end of the range while the company continues to benefit from favorable market conditions and takes advantage of above average growth opportunities.

As a result of these improvements, the company's combined ratio for the fourth quarter 2013 was 91.4 percent compared to 97.4 percent in the prior year quarter, and 93.9 percent for the third quarter of 2013. For the year, the combined ratio was 94.4 percent compared to 102.4 percent in the prior year or a year-over-year reduction of 8 percentage points.

Net income for the quarter was $2.2 million, a 75 percent increase over the 1.2 million reported in the fourth quarter of 2012. This was all driven by our quarterly increases in underwriting profit, which in the fourth quarter 2013 improved to $1.8 million compared with 305,000 in a prior year quarter.

Diluted earnings per share were $0.22 for the fourth quarter 2013 based on 9.8 million diluted weighted average shares as compared to diluted earnings per share of $0.15 in the prior year period based on 8.4 million diluted weighted average shares.

For the full year 2013, diluted earnings per share were $0.74. Preferred shares that were redeemed during Q3 2013 decreased the full year 2013 diluted earnings per share by $0.10 as a result of including the pro-rata share impact as if the preferred shares had converted at the beginning of the period.

Future diluted earnings per share will not be affected by the convertible impact of these shares that were redeemed in 2013. On a pro forma basis, without the impact of these preferred shares, diluted earnings per share for the full year 2013 would be $0.84.

As mentioned during the third quarter call, we redeemed and cancelled 18 million preferred shares at a $1.8 million discount in the third quarter of this year. This was an important move for our company as we simplified the capital structure while also purchasing the preferred stock back at a discount.

In addition, during the period, 1.2 million warrants were exercised for cash consideration of $6.4 million. At the present time, Atlas has 9,424,734 common shares outstanding and a simplified capital structure.

On Slide 14, we highlight some of the particulars surrounding our current book value per share.

As we've discussed, 2013 was eventful with the acquisition of Gateway, our U.S. IPO, the preferred share redemption, and the warrant exercises. We thought it would be helpful to illustrate how these key events impacted our book value during 2013.

As you can see for the full year, these nonrecurring activities, which were beneficial to our business and capital structure, coupled with a mark-to-market impact on our investment portfolio, collectively reduced book value by $0.65 per share.

During the same period, net income attributable to common shareholders increased book value by $0.42 per share, while the change to our deferred tax valuation allowance increased book value by $0.22 per share.

It is also worth noting, as previously discussed via press release, Atlas's deferred tax assets will recast based on a triggering event as defined under IRS Code Section 382 in August of 2013. As a result, Atlas's gross and net deferred tax assets were reduced by $1.7 million and $587,000 respectively. This triggering event did not affect book value based on the previous allowance held against these assets.

Atlas currently has $1.62 per share in post-triggering event DTAs with an allowance of $1.00 per share held against these assets as of December 31st, 2013.

Now, let me touch quickly on investments.

As shown on Slide 15 of our presentation, Atlas's cash and invested assets at December 31st, 2013 were $139.9 million as compared to $120.8 million at December 31st, 2012.

Investment income was $424,000 in the quarter, which includes net realized gains of $8,000.

The duration of our investment portfolio matches the expected liquidity requirements of our client payment needs. With our philosophy centered around preservation of capital to support our growth, our current duration is 4.7 years, and fixed income securities with an S&P rating of an A or better represent 89 percent of our investment holdings. The average rating of our portfolio was AA.

With that, let me turn the call back over to Scott for his concluding remarks.

Mr. Scott Wollney: Thanks, Paul.

In 2013, we completed a number of steps to ensure that Atlas is well positioned for future growth. Looking forward, we plan to continue to execute on our strategic business plan.

In 2014, we expect to leverage the infrastructure we built and grow our customer base within current niche markets while we begin to explore potential horizontal expansion for the future.

As we've discussed with many of you, our goal is to gain a proportionate share in the niche markets where we operate. According A.M. Best, the commercial auto segment in the U.S. is approximately 24 billion in written premiums. We represent 0.3 percent of that at this point in time.

The addressable market in our target niche areas of taxi, limo, and para-transit insurance is about 1.5 billion. And our goal is get to approximately 20 percent of that in the current market cycle.

Right now, we're at 93 million in gross written premiums and see substantial opportunity to continue our profitable growth.

We think we're on the right track, continuing to cultivate our current relationships with specialized independent agents, a large geographic footprint, remaining strict in our underwriting and pricing criteria, all while leveraging a focus claim service, an expertise that we will feel is difficult to replicate.

Importantly, our model dictates that we remain more committed than our competition in any market where we write.

We recently rang the bell at NASDAQ on our one year anniversary of becoming U.S. listed company. It was a nice opportunity to thank our employees and reiterate the fact that we are a hyper focused company that understands its markets, which we believe are underserved both in capacity and expertise.

We're a relatively small business. And every one of our 107 employees are aligned and motivated to help Atlas grow and build on the long heritage of the insurance companies we operate.

We have a great team. We are very proud of what we accomplished last year. And we like where we are heading.

With that, let's open it up for questions.

Operator: Thank you.

Ladies and gentlemen, we will now be conducting a question and answer session.

If you would like to ask a question, please press star-one on your telephone keypad. A confirmation tone will indicate your line is in the question queue.

You may press star-two if you'd like to remove your question from the queue.

For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

One moment while we pull for questions.

Our question comes from the line of Morgan Frank with Manchester Management.

Please proceed with your question.

Mr. Morgan Frank: Hey, guys.

Great quarter. Question for you on gross premium written. Uh, that was a big jump and a big acceleration in terms of year-on-year comparables. Was this something kind of one-time and idiosyncratic here, or you know, could we sort of extrapolate this triple-digit growth in gross written premium, uh, going forward in the next couple of quarters? And if so, you know, what's the big change? Is that just how we're believing or--?

Mr. Scott Wollney: It isn't limited just to that. I guess, first of all, we wanna be clear, you know, we don't want give a specific forecast in terms of the extrapolation of the question.

But, um, it was not a correction.

Um, it really is the effect of a number of competitors that have exited the niche over the past year to year and a half, where their books of business really just began non-renewing in the second half of the year. And so, we did get, obviously, significant benefit from that capacity, you know, fully exiting in the fourth quarter. And we do expect to continue to get similar kinds of benefit during this year as those programs continue to run off.

Mr. Morgan Frank: Um, wow. Okay. Well, that's really exciting. Thanks very much.

Mr. Scott Wollney: Thanks for the question, Morgan.

Operator: Thank you.

Our next question comes from the line of Brian Hollenden with Sidoti.

Please proceed with your question.

Mr. Brian Holland: Good morning, guys. Thanks for taking my call. Can you give us a sense of how long you, uh, you expect this quasi-hard market to last?

Mr. Scott Wollney: Well, we hope it'll continue to last for a while. As I touched on, you know, we like the idea of a longer, flatter, firm market as opposed to a market that hardens sharply the way that it did in early 2000s.

Right now, the data suggests that that's what happening. Obviously, quarter-to-quarter, we've seen some sort of fits and spurts in terms of a rate increase. Um, but at least in our niche, um, you know, we feel very good about the market environment in 2014.

Again, we wanna hold off on trying to forecast potential duration of the market because it is a market after all. And we don't feel that we can predict the length of the market cycle.

But as we see it right now, you know, we feel like our niche, um, is supporting higher rate levels than commercial auto appears to be getting generally.

And for the reason--I touched on when responding to Morgan's question, you know, there is a significant amount of capacity that's come out, which gives us incremental opportunity, um, not only to increase rate, but also to capture market share.

Mr. Brian Holland: Alright. Thank you.

Mr. Scott Wollney: Thanks for the question, Brian.

Operator: Thank you.

Again, ladies and gentlemen, if you'd like to ask a question, please press star-one on your telephone keypad.

Our next question comes from the line of Matthew Berry with Lane Five Capital.

Please proceed with your question.

Mr. Matthew Berry: Hello, gentlemen.

Mr. Paul Romano: --Hey, Matthew--.

Mr. Scott Wollney: --Hi, Matthew--.

Mr. Matthew Berry: --Hi.

I've got a couple of questions. Uh, one is, um, rather esoteric, so I'll go with that one second.

The first one is I noticed the yield on your investment portfolio, um, is, uh, is probably not as high or as well performing as, uh, as your current level of underwriting profits, which is--which are excellent. I was wondering if you could comment on how--what do you think you could do to improve the yield on the investment portfolio, whether that is an area of focus for you at all, and how you think it stacks up against how some of your competitors manage their investment portfolios?

Mr. Scott Wollney: Sure.

It's a great question. You may have seen the duration on the portfolio did extend a bit, um, going out to 4.7 years. You know, our goal, principally, is preservation of capital. We want that capital to be there to support the incremental underwriting profit that we expect to generate in the favorable market conditions we're experiencing.

So we have put a very high priority on managing risk in the portfolio so that we don't put, you know, that capital potentially in jeopardy. That said, you know, we did extend the duration a little bit to try to capture some incremental yield. In the second half of the year, there were some opportunities we felt to do that.

But the reality of it is, as I'm sure everyone on the call knows, the current fixed income market, even if you begin to go even further out on the yield curve, just doesn't provide a lot of bang for your buck. Um, so we don't plan to continue pushing yield out further and further.

We also don't wanna look at particularly risky assets, but we do every quarter look at opportunities. Um, we actively have a dialog with our investment managers, um, to seek primarily fixed income, um, opportunities to grow yield a bit.

Um, because our surplus is growing--and that surplus is theoretically permanent capital, um, you know, we do feel like we have an opportunity, um, to look at investments that may have a longer duration, but only if the incremental yield really justifies, you know, committing that capital.

There's definitely something to be said too to keeping some powder dry so that if we see the rate environment improve, or if we see other investment opportunities become available. Like private placement for example, you know, we want to be in a position to capitalize on it. So, we definitely look very closely at it.

We don't want to make decisions today that are going to have an adverse effect on our ability to grow the business tomorrow. Um, but we'd like to see that yield go up, you know, to the extent we can, you know, meeting the criteria that I set out.

In terms of how it compares to other companies, I think if you looked at other insurance companies with similar claim payment patterns, in others words, if the tail on their business was similar to ours, you'd see a fairly similar yield. I think there are a number of P&C companies that have as much as 20 percent or more in equities. Their yields will obviously be outperforming ours, but then they're taking market risk in terms of those investments.

And right now, we'd rather, you know, commit to having our capital available for our own business because we know we're generating higher than average underwriting results as opposed to betting it on the stock market.

Mr. Matthew Berry: Okay.

Could you also remind me, just on the same point, uh, how much, um, how many basis points you give up in asset management fees?

Mr. Scott Wollney: It's small. It's about 11 bps all in, and that some includes accounting support as well.

Mr. Matthew Berry: Okay.

Okay, thanks Scott. Um, okay--so--and then, the second question follows on, I think, neatly from you said about keeping powder dry and managing the portfolio for risk and so on. Um, uh, and--it's the--when we look at, uh, our various insurance companies, some of--some operate slightly different to the others.

One of them in particular is always able--has never had a year when it's not been able to pay all of the claims out of incoming premiums. Uh, and therefore, in that situation, all of the value of the investments accrues to the shareholders.

Um, could you talk to us about how you think about balancing, you know, you're little more niche, uh, and a little more focused in--than that firm, uh, in terms of the, you know, the--your markets that you write for, but um, could you talk to us about how you think about managing the size of the, um, you know, the claims that you write or the claims that you might have to pay versus the, uh, the claim--uh, versus the premiums that you write and whether or not we would ever expect to see years where you're paying out more than you are bringing in in cash?

Mr. Scott Wollney: So, we are cash-flow positive as of 2013. In some of the earlier years, we were cash-flow negative as larger volumes of claims from the bigger book of business were being paid out against a smaller premium pool.

So, today it is the case that on a cash-flow basis, more money is coming in than going out. As a result, the investment portfolio will continue to grow, presumably, at an incrementally higher rate. And so, from that perspective, you would expect to see that happening until such time where our top line begins to shrink.

And as we've said in the past, you know, right now, it's a firm market. We're growing at increasing marginal profit, and are able to increase rates. Um, when we eventually see the market turn soft, which it will at some point, um, that's a point where we expect to maintain pricing discipline and would lose some amount of market share.

And so, when you see the top line come down, that's the point where the business could, you know, on a cash basis, be paying more claims out in dollars than taking in new premiums. But, the important thing to recognize is that those future claim payouts are being made against claim reserve liabilities that have already been booked.

So, from an insurance company accounting standpoint, in every calendar year, every accident year, we are putting up reserves against the premium we earn. And the expectation is that future cash out the door is gonna bump up against the reserves already made. So, from a balance sheet perspective, you'd still expect book value to remain strong.

Mr. Matthew Berry: Absolutely.

Mr. Scott Wollney: Even though the cash-flow is go--you know, potentially going the other way.

Mr. Matthew Berry: Yeah.

Uh, in terms of peak to--peak to trough, when things do soften, given that you are sort of only concentrated in one niche, do you have a sense of how hard that could--I mean, it's going to depend on how much market share you have at the time and how that--it reacts to--your specific niche reacts to your pricing actions, but, um, do you have a sense of how, uh, how far the, uh, you know, your niche has fallen historically from peak to trough?

Mr. Scott Wollney: Well, the overall size of the niche has not generally shrunk in terms of total premium. The question is how price aggressive are, you know, naïve competitors in a soft market environment.

Mr. Matthew Berry: Um-hmm--.

Mr. Scott Wollney: --Um, and so, it's hard to forecast how small would small be once we get to proportionate market share. In other words, if we get to 20 percent of the $1.5 billion adjustable market, that's 250 to 300 million in premium, um, so that's peak.

Mr. Matthew Berry: Um-hmm--.

Mr. Scott Wollney: --What trough would be following that, I think is a difficult thing to forecast because we can't know today what a naïve competitor might do in the future, um, particularly if it's three to five years from now. But what we do know is that we intend to maintain a pricing discipline where we would stop giving rate in a soft market environment at about a 70 percent fully developed loss ratio.

And so, that's the point where, you know, we would always wanna lag the market in terms of giving rate in a soft market environment, hence losing some of them on a share, but then hold the line at a 70 because at a 70 in our current cost structure, which we'd expect to maintain, you know, we never expect to fall below minimum efficient scale again. Um, that would still keep our combined ratio under 100 so that we are always generating some amount of underwriting profit as opposed to allowing that ratio to go over 100 the way that the property-casualty industry generally does in soft market.

Mr. Matthew Berry: Okay.

And do you think, uh, when you get up to--assuming you do get up to, you know, 20 percent, um, uh, sort of level, that having, uh, a player in the market with that kind of scale, uh, in your niche, imposes, uh, or allows anybody else to act with more price discipline, or do you think that people will continue to be as, uh, as irrational and erratic as they have in the past?

Mr. Scott Wollney: Well, our goal will always be to be provide price leadership. You know, we think that as--what will be the only real middle-market player in our niche, it does give, um, some guidance to somebody who perhaps doesn't understand what they're competing with.

You know, it's not uncommon for insurance companies to look at other insurance companys' public filings to get a sense for what pricing should be.

Mr. Matthew Berry: Um-hmm--.

Mr. Scott Wollney: --Um, but that said, you know, if we see an insurance company coming in particularly through managing general agents or wholesalers, it's unclear whether those managing general agents or wholesalers are gonna have the kind of discipline that an insurance company would.

And so, uh, you know, I think we have to expect that there is always the potential for irrational pricing particularly in a soft market because there always seems to be an insurance carrier out there that's willing to sign up a managing general agent despite the fact that, historically, that hasn't worked out well in most cases.

Mr. Matthew Berry: Okay. Alright. Thank you very much.

Mr. Scott Wollney: Alright. Thanks for the questions, Matthew.

Operator: Thank you.

Our next question comes from the line of John Barnidge with Sandler O'Neal.

Please proceed with your question.

Mr. John Barnidge: Good morning and thanks for taking my call. Uh, you touched on where you want the other underwriting expense ratio to trend over time, what--and I may have missed this, but where do see, uh, the acquisition cost ratio settling in?

Mr. Scott Wollney: I think, from a modeling perspective for a full year, I'd use 14 1/2 percent--.

Mr. John Barnidge: --Um-hmm--.

Mr. Scott Wollney: --That's gonna vary quarter-over-quarter--.

Mr. John Barnidge: --Yep--.

Mr. Scott Wollney: --Principally, based on geographic weighting, you know, the premium tax in a state like New York, for example, is upwards of 2 percent, whereas in a state like Illinois, it's less than half a percent. Um, so depending on in a given quarter where the bulk of our premium is written, you know, you'll see that fluctuate. The second component of acquisition cost, which is our commission levels, um, remain pretty constant quarter-over-quarter.

Mr. John Barnidge: Great. Thank you very much.

Mr. Scott Wollney: Thanks for the question, John.

Operator: Thank you.

Ladies and gentle, again, as a reminder, if you'd like to ask a question, please press star-one on your telephone keypad.

One moment while we pull for questions.

There are no further questions at this time.

I'd like to turn the floor back to Scott Wollney for closing comments.

Mr. Scott Wollney: Great. Thank you, Bob.

And thanks to everyone for joining us. We're available to answer any follow-up questions you might have, and look forward to speaking with you again in May in connection with our first quarter financial results.

Operator: This concludes today's teleconference. You may disconnect your lines at this time.

Thank you for your participation.